



UNIVERSITI PUTRA MALAYSIA

**A CASE STUDY ON
WATSON'S PERSONAL CARE STORES SDN BHD**

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WATSON'S PERSONAL CARE STORES SDN BHD**

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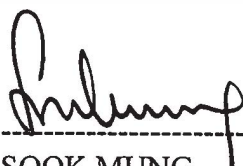
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PENGESAHAN KEASLIAN LAPORAN

Dengan ini saya, Chow Sook Mung, No. Matrik : GSO 1413, pelajar Program Master of Business Administration, mengaku bahawa projek ini adalah hasil asal saya sendiri.



CHOW SOOK MUNG

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ABSTRACT

Since the economic crisis in July 1997, the performance of the retail industry has been affected by reduced consumer expenditure and higher costs of imports. Watson's Personal Care Stores Sdn Bhd, the retail chain store in Malaysia since 1994 was also affected by this economic turmoil. The problems that Watson's faced were the declining of profits plus some internal problems in each department i.e. the Human Resources, Operations and Buying Department. With all the challenges in the retailing industry, Watson's need to overcome the situation and remain competitive in the market.

There are 4 strategies that Watson's can adopt to increase the sales and profits of the company i.e. 1) focus on the 4Ps - Product, Price, Place, Promotion; 2) Implement new policy ; 3) Providing outstanding service to the customers and 4) Set up the Marketing Department.

Abstrak

Sejak krisis ekonomi bermula pada Julai 1997, pengurangan perbelanjaan oleh pengguna dan kos input yang tinggi telah mempengaruhi prestasi syarikat di dalam industri peruncitan. Watson's Personal Care Stores Sdn Bhd, adalah rangkaian peruncitan di Malaysia sejak 1994 juga telah merasai kesan kemelesatan ekonomi ini. Masalah yang dihadapi oleh Watson' adalah pengurangan dalam keuntungan ditambah pula dengan masalah dalaman dalam setiap jabatan. Dalam menghadapi cabaran tersebut, Watson's perlu mengatasi masalah-masalah tersebut supaya dapat bersaing di dalam pasaran.

Terdapat 4 strategi yang Watson's boleh gunakan untuk meningkatkan jualan dan keuntungan iaitu 1) memfokus kepada prinsip pemasaran iaitu 4P; 2) Menggubal polisi baru; 3) Memberi perkhidmatan yang terbaik dan 4) Menubuhkan satu jabatan iaitu Jabatan Pemasaran.

1.0 INTRODUCTION

Tim Harvey, the Managing Director in Hong Kong, hadn't been with Watson's for very long when he was transferred to Malaysia in early 1999 to oversee the business in Malaysia and Singapore. As he was seated in his new office, he read the reports that were lying on his desk that needed his immediate attention. In the Operations report submitted by the Operations Controller, Ms Ho Lai Lan it was reported that profits, as measured by net operating results, had decreased over 10% compared to 1997.

From the Human Resources report written by Ms Lim Soh Buay, the Human Resources Manager, it was reported that the staff turnover rate remained high with an average of 15-20% from January 1999 to June 1999 even in this economic turmoil.

As Mr Harvey was reading the reports, he foresees that much has to be accomplished in the coming years as he was seated in his new office. The parent company, Hutchison Whampoa, was concerned that Watson's profits were declining 10% below 1997 (Appendix 1). This was partially due to the economic conditions, the effect of currency devaluation and also the lower consumption by the customer. As such much has to be done to increase the sales for the coming year in order to be one of the survival in this competitive market.

After having read all the reports, Tim Harvey sighed. With all the challenges in the retailing industry, how does Watson's overcome the situation. What are the best mechanisms that Watson's need to adopt to remain competitive in this industry? This was what lingered in his head as the Managing Director of the company.

1.1 COMPANY PROFILE

Hutchison Whampoa Limited (HWL) is a Hong Kong-based conglomerate with its origins dating back to the 1800s. Hutchison Whampoa is one of Hong Kong's largest blue-chip companies with over 70,000 employees worldwide. The group operates five core businesses:

a) Property Development and Investment

Hutchison Whampoa Property develops residential and commercial properties for sale and lease. Its portfolio includes some of Hong Kong's largest private housing projects and several landmark developments in the Mainland.

b) Ports and related services

The group's expertise in port investment and management stems from its pioneering operations in Hong Kong. Its port operations arm, Hutchison International Port Holdings', is now exporting its professional experience and expertise to ports in different parts of the world.

c) Retailing and Manufacturing

A.S. Watson operates four of Asia's most innovative retail chains: Park'N Shop supermarkets, Watson's Personal Care Stores Sdn Bhd; Fortress, selling domestic electrical appliances and computers and Bhs lifestyle fashion and home stores.

The manufacturing division produces and distributes a wide range of food and beverages throughout Hong Kong, the Mainland and other Asian countries.

d) Telecommunications and Media

Hutchison Telecom operates a wide range of integrated telecommunications services worldwide and is one the world's major providers of mobile communications.

e) Infrastructure and Energy

The Group has major shareholdings in Cheung Kong Infrastructure – which holds interests in infrastructure and related businesses, and power plant projects: Hong Kong Electric – the sole supplier of electricity to Hong Kong Island, and Husky Oil – one of Canada's largest, privately owned oil and gas companies.

1.2 ECONOMIC REVIEW

The Malaysian economy experienced its first decline in 1998 since 1985, with Real Gross Domestic Product declining by 6.7%. Further, real aggregate domestic demand declined by 25.9% due to erosion of real wealth, uncertainty with regard to job security and high interest rates.

On the supply side, the manufacturing and construction sectors reported contractions of 10.2% and 24.5% respectively whilst the services sector grew by 1.5%.

The wholesale and retail trades, hotels and restaurants subsector of the services sector declined by 2% in 1998 as a result of the economic downturn and cautious consumer spending.

During the year under review, the government implemented several measures to stabilise and reverse the declining economy. Among these were the National Recovery Plan, selective exchange controls, easing of monetary policy and measures to restructure and recapitalise the financial system and the Home Ownership Campaign.

1.3 THE RETAILING INDUSTRY

The retailing industry in Malaysia was fiercely competitive. The retailers competed among themselves among the retail chain store and giant retailer such as Tops, Carrefour and Giant for a share of the domestic market.

Since the beginning of the Asian financial and economic crisis in July 1997, the performance of the retail industry has been affected by reduced consumer expenditure and higher costs of imports. In Appendix 2, it reveal the degree of impact on each retail sub-sector. Overall, retail sales (non-weighted) have dropped by 17%. Retailers dealing in food, household products and other daily necessities are not badly affected in relation to retailers merchandising non-essential and high-end products and services.

Today, more than ever, organization is searching for a competitive edge, a strategic uniqueness, which will distinguish them from their competition. In the retailing, even huge hyperstores no longer have the advantage of large price differentials. Intense competition has eroded this pricing advantage to a considerable extent, and stores had begun to concentrate on other mechanisms for achieving points of difference.

2.0 THE COMPANY

2.1 WATSON'S BACKGROUND

A.S. Watson & Co Ltd is a subsidiary of Hutchison Whampoa Limited and is one of the best known trading names in Asia. The company began as a small dispensary in Guangzhou, China in 1828, opened in Hong Kong in 1841, and became one of the first companies in the world to produce carbonated soft drinks. By the turn of the century, A.S. Watson had become a major trading force in Hong Kong, China, Macau, Taiwan, Singapore, Malaysia and Thailand with more than 300 retailing and dispensing branches.

In Taiwan, the group has a major chain of 145 drugstores. The 90 stores in Singapore and Malaysia are expected to increase steadily by about 15 per year, while the number of stores in Thailand will grow to 25 in the near future. In China, A.S. Watson operated in excess of 90 outlets, the largest chain of foreign-owned stores in the mainland. This is expected to grow at the rate of 40 to 50 stores a year and to provide profitable returns within the decade.

Watson's is the original personal care retailer with more than 150 years of retail experience in the region, with over 300 stores throughout Asia. Watson's regularly carry more than 25,000 items sourced from over 20 countries, including its own label that is GIANETTO. These imported items contributed most to the

total profits of Watson's. GIANETTO can be divided in six major product groups:-

- | | |
|----------------------|---------------------|
| * Personal Care | * Lifestyle |
| * Beautiful You | * Sweet Expressions |
| * Health and Fitness | * Fun and Games |

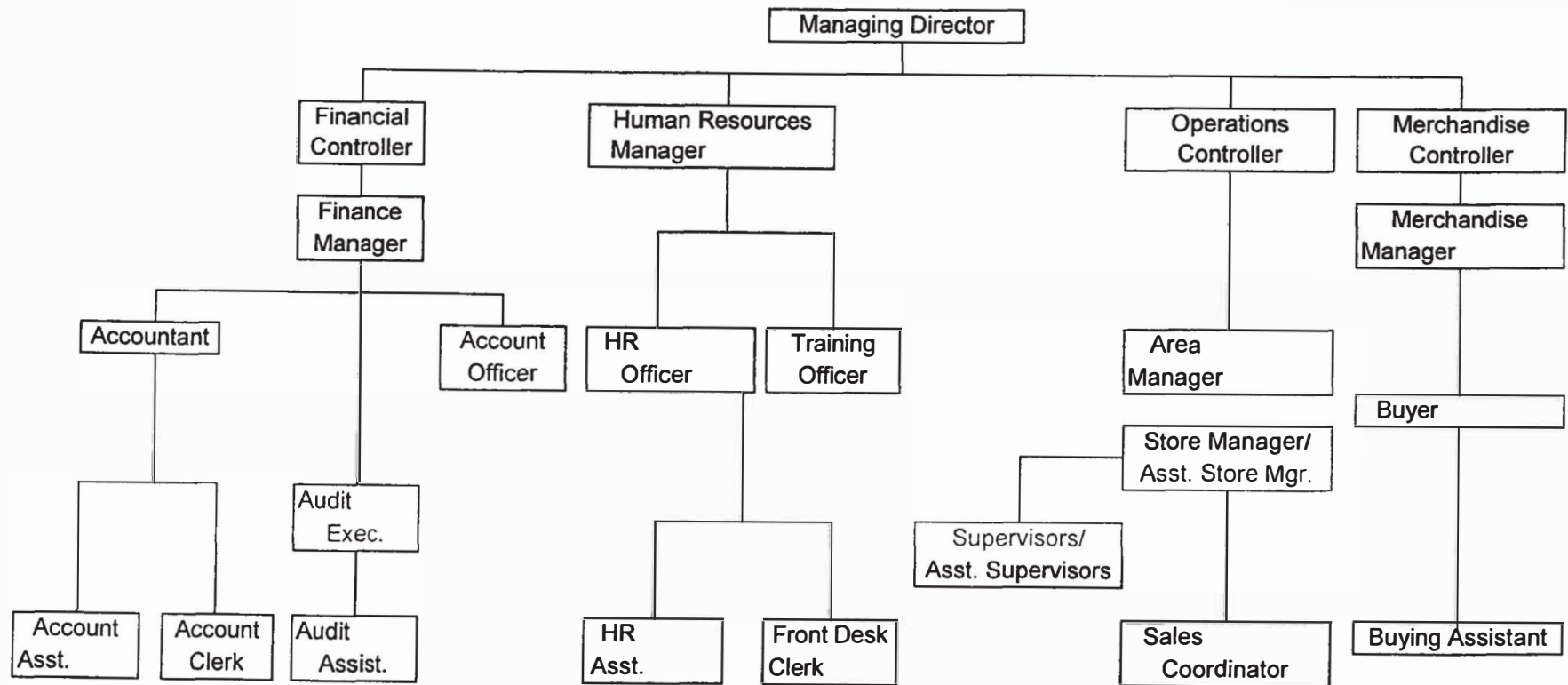
The store count has doubled in the last 4 years and is poised to exceed 500 stores by the year 2000. Today over 10 millions shoppers visit Watson's each month in Malaysia, Singapore, Taiwan, Macao, China, Hong Kong and Thailand. The store range in size from 2,000 to 12,000 sq.ft. with the ideal size being 5,000 sq.ft.

2.2 WATSON'S MISSION

Attain and subsequently maintain leadership position in the health, beauty and fashion stores sector through:

- a) building a reputation for excellence in meeting customer needs
- b) generating continuous profit growth
- c) believe in, create and maintain virtuous circles

2.3 WATSON'S ORGANIZATION STRUCTURE



2.3.1 HUMAN RESOURCES DEPARTMENT

The Human Resources Department was headed by Ms Lim Soh Buay, the Human Resources Manager with at least 20 years of experience as a human resources practitioner with the assistance of 2 Officers and a Clerk.

The total workforce of Watson's was about 550 people throughout West Malaysia. The main function of human resources was to recruit the staff for the operation in the Klang Valley as when and where needed. For the outstation stores, the Store Managers were empowered to recruit and trained by the management in the stores. It was compulsory for a newly joined staff to undergo the induction training and on-the-job training for 3 days upon reporting to work before placing them at the specify store in the Klang Valley. However, when there was an urgent basis, some of the newly joined staffs were send to the shop floor before they had the chance to undergo the proper training.

The turnover for the sales personnel were high in Klang Valley compared to the outstation stores. Through the exit-interview that was conducted in Klang Valley, the following were the reasons of the high turnover:-

1. Wider job opportunity even though at this economic downturn as more new giant retailers were opened such as Tops, Giant etc.
2. The working environment in Watson's was humid and hectic especially at the busy stores such as Watson's Kota Raya and Sg Wang. Both stores generated the highest sales compared to other stores.
3. The sales personnel felt that there were no career development for them.
4. Relationship with superior - was only a one way communication whereby store management only gave instructions and orders without any guidance to the sales personnel.
5. No proper training as sometimes the store management did the recruitment themselves without the knowledge of Human Resources Department.
6. Salary was not attractive compared to the workload that need to be done as Watson's had different promotions monthly.
7. The sales personnel found difficulties to understand in the language being taught as most of the training modules were in English. Majority of the sales personnel were only Form 3 and Form 5 dropouts.

Besides that, the other reasons were some of the staffs were terminated by the management due to dishonesty and mishandling of cash money and they were immediately sent to the police.

The high turnover of staff in the operations especially in the big and busy stores were majority situated in Klang Valley in Table 1 as shown below:

Table 1 : STAFF TURNOVER IN KLANG VALLEY

STORE A	JAN 99	FEB 99	MAC 99	APRIL 99	MAY 99	TOTAL
Sg Wang	1	3	2	2	3	11
Kota Raya	2	2	1	2	3	10
Bangsar	2	1	1	1	1	6
The Mall	1	1	1	2	2	7
KLCC	5	1	3	2	4	15
B Utama	2	3	1	1	1	8
TOTAL	13	11	9	10	14	57

Source : Company's record

Based on the statistic shown in Table 1, there were some serious problems in retaining the staff in the busy stores. The duration of staying for the sales personnel in Watson's were approximately one year upon confirmation. The statistic also indicates that there might be some weakness on the store management part such as lack of interpersonal skill and leadership skill. It was very costly and time consuming as much effort had been put on to train a staff.

Due to the high turnover, the level of customer service rendered by the staff was also deteriorating. In the past 6 months, the Human Resources Manager received an average of 1 complaint from dissatisfied customer about the way the sales personnel handle the business situation on the spot. Based on the investigation, it was reported that the sales personnel involved were mostly the newly joined staff.

The weekly/monthly tasks to be performed in Watson's Stores A were listed as below:-

- 300,000 items sold weekly
- 2000 PLU (Price Look Up) changes monthly
- 120,000 customer monthly
- 500 PLU items on promotion monthly
- Tag and re-retag 100,000 units of merchandise weekly

Based on the above routines that needed to be performed, it was difficult to retain the operations staff as the jobs were done manually and the salary was not competitive with the work load.

2.3.2 OPERATIONS DEPARTMENT

Ms Ho Lai Lan , the Operations Controller joined Watson's since 1997. Prior to that, she was attached with KFC (Kentucky Fried Chicken) for 17 years and her last position was as the Country Manager before joining Watson's. As the Operations Controller, she was fully responsible for the total operations in all the outlets throughout Malaysia.

2.3.3 BUYING DEPARTMENT

Buying department was led by Catherine Williams, the Merchandise Controller which was based in Watson's Singapore. She was assisted by 2 Merchandise Managers i.e. Ian Cruddas who was in-charged of the Toiletries and Cosmetics Department and had only joined the company 6 months ago while Loo Chii Shian, a qualified Pharmacist was in-charged in the Confectionery and Pharmaceutical Section, had been with the company for the past 4 years. There were 2 Buyers and 4 Buying Assistants to perform the task in the Buying Department.

The task of Buying Department were as below:

- a) plan for centralized buying
- b) plan for centralized promotion
- c) plan for the layout design
- d) negotiate with suppliers on the trading terms and pricing

Despite the monthly centralized promotion which was planned one year ahead by the HQ (Head Quarters), Catherine still receive complaints from the operations on the ordering of stocks to be allocated to the stores. There was no proper planning; all was done on ad-hoc basis. Some of the store did not receive the promotion stocks although the promotions had already started or quite often, there were insufficient stocks to be sold to the customers.

For ordering of stocks, the Buyers decide the quantity of stocks to be ordered. This had raised dissatisfaction among the Area Managers on this issue. Many times, during the monthly meeting with the Buyers, they brought up this matter. Their argument was that since the management staff in the operations knew best which stocks were top sales and which were not, they were the best person to do their ordering of stocks instead of the buying department. Table 2 showed the comparison of product ranking between the actual sales and the

allocated products by Buying department in the Chemist section. Obviously some of the products that had been allocated were not what the customer's demand.

TABLE 2 : COMPARISON OF PRODUCT RANKING BETWEEN ACTUAL SALES AND ALLOCATION OF PRODUCTS BY BUYING DEPARTMENT IN CHEMIST SECTION

Top 10 Sales Product Ranking	Top 10 Product Allocated by Buying
21 st Century Chitosan 250mg 30's	21 st Century Herbal Hairplus Cap 30's
Imedeen Tablets 60's	21 st Century Weight Loss Powder
Allergen Comp Comfort Plus T/Pack	Durex 12's Extrasafe
B & L Renu	21 st Century Chitosan 250mg 30's
Durex 12's Extrasafe	B & L Renu
Durex 12's Fetherlite	Spritzer Mineral Water
Appeton Weight Gain Power - Adult	Panadol 10's
Kordel Evening Primrose Oil	Ciba Vision Solocare
Tummitrim Xtra Performance	Klean and Kare Normal Saline
Panadol 10's	Total Purewater Distilled Water

Source : Company's record

3.0 WATSON'S BRANCHES IN WEST MALAYSIA

Watson's stores in Malaysia were located at most of the major shopping complexes. Watson's first store was opened in Johor Bahru in 1994. Since then, Watson's had opened another 42 stores throughout West Malaysia. The headcount in a store varies, in which it depends on the size and location of the store.

In order to have a better control, the management has divided into 5 regions namely Northern, Southern, Central I, Central II and Central South. An Area Manager headed each region, which consisted of Store Managers and/or Assistant Store Managers, Supervisors and/or Assistant Supervisors, a Back Room Clerk and the Sales Coordinators. Each outlet was given a sales target to achieve whereby the high achievers would be rewarded in terms of bonus at the end of the year.

Below was the Watson's outlet at each region:-

NORTHERN REGION

1. Alor Setar
2. Penang One Stop
3. Bukit Jambul
4. Komtar
5. Megamall Prai

SOUTHERN REGION

1. Batu Pahat
2. Kluang,
3. Holiday Plaza
4. Perling Mall,
5. Pelangi Leisure Mall

6. Bukit Mertajam
7. Kinta City, Ipoh.

CENTRAL I

1. Leisure Mall
2. Bandar Utama
3. Alpha Angle
4. Ampang Point
5. Pandan Kapital
6. Sunway Pyramid
7. KL Plaza
8. Summit Square USJ
9. Amcorp Mall

6. Plaza Tasek,
7. Plaza Angsana
8. City Square

CENTRAL II

1. Sungei Wang
2. Kota Raya
3. Selayang Mall
4. Bandar Baru Klang
5. The Mall
6. Centre Point Klang
7. Kuantan Parade
8. BerjayaMegamall
9. Mines